

## Message Text

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EXDIS TOSEC 229

E.O. 11652: GDS

TAGS: EAID, MASS, VS

SUBJECT: PROJECTION OF AID TO THE REPUBLIC OF VIET-NAM

1. THE COMMITMENT. AT YOUR MEETING WITH CONGRESSIONAL LEADERS APRIL 24, YOU INDICATED THAT WE WOULD PROVIDE THE CONGRESS WITH A PROJECTION OF ECONOMIC AND MILITARY AID REQUIREMENTS FOR THE REPUBLIC OF VIET-NAM OVER THE NEXT FIVE YEARS. THERE FOLLOWS FOR YOUR CONSIDERATION THE PRELIMINARY THINKING OF STATE, DOD AND AID AS TO HOW WE MIGHT BEST MEET THIS COMMITMENT.

2. TIMING. WE DO NOT BELIEVE WE WILL BE IN A POSITION TO PROVIDE DETAILED PROJECTIONS OF AID BY THE TIME OF THE HEARINGS ON THE FY-75 FOREIGN ASSISTANCE LEGISLATION IN MID-MAY. BY THAT DATE HOWEVER WE SHOULD BE PREPARED TO

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PRESENT TO THE CONGRESS, WITHIN THE CONTEXT OF OUR TESTI-

MONEY, AT LEAST AN OUTLINE OF OUR CONCEPT OF PHASE-DOWN. THIS WILL BE ESSENTIAL, WE BELIEVE, IF WE ARE TO INCREASE CONGRESSIONAL RECEPTIVITY TO OUR FY-75 VIET-NAM AID REQUESTS. WE WOULD PLAN TO COMPLETE AND TRANSMIT FORMALLY TO THE CONGRESS A DETAILED LONG-RANGE AID PROJECTION BY ABOUT MID-AUGUST. (THIS WOULD BE ALONG THE LINES OF THE SUBMISSION ENVISAGED IN THE HUMPHREY AMENDMENT TO THE

FY-75 STATE AUTHORIZATION BILL.)

3. THE ENVIRONMENT. IN FORMULATING OUR AID PROJECTIONS, THE FUNDAMENTAL ASSUMPTIONS WE MUST MAKE CONCERN THE DEVELOPMENT OF THE MILITARY ENVIRONMENT IN SOUTH VIET-NAM. WE BELIEVE WE SHOULD ENVISAGE A "CRITICAL TRANSITION PERIOD" OF TWO TO THREE MORE YEARS DURATION (FY'S 75, 76 AND 77) DURING WHICH THE THREAT FROM HANOI WOULD REMAIN HIGH, CONFLICT WOULD CONTINUE AT ABOUT PRESENT LEVELS, WITH THE GVN HOLDING ITS OWN, AND HANOI'S ALLIES WOULD CONTINUE TO PLAY A RESTRAINING ROLE. IN THE LATTER PART OF FY-77 WE WOULD POSTULATE A GROWING REALIZATION ON THE PART OF NORTH VIET-NAM THAT IT CANNOT SUCCEED IN TAKING OVER THE SOUTH BY FORCE. THERE WOULD ENSUE A PERIOD OF GRADUALLY REDUCED CONFLICT, THE ENDING OF LARGE UNIT ENGAGEMENTS, THE STABILIZATION OF AREAS OF CONTROL, THE DEVELOPMENT OF A REASONABLY EFFECTIVE ARMISTICE AND THE EVOLUTION OF A KOREA-LIKE ENVIRONMENT OF MILITARY EQUILIBRIUM. THIS WOULD SET THE STAGE OVER THE MUCH LONGER TERM FOR THE POSSIBLE ACHIEVEMENT OF A POLITICAL SOLUTION WITHIN THE FRAMEWORK OF THE PARIS ACCORDS.

4. OTHER PREMISES. ON THE BASIS OF THE ABOVE SCENARIO RESPECTING THE MILITARY ENVIRONMENT, WE WOULD SEEK TO DEVELOP OUR AID PROJECTIONS. OTHER BASIC PREMISES WOULD BE:

(A) WHILE THIS PROJECTION WILL BE MADE ON THE BASIS OF WHAT WE CONSIDER TO BE THE MOST LIKELY SET OF CONDITIONS, IT WOULD BE NECESSARY TO ADD A CAVEAT POINTING OUT THAT DIFFERENT ACTIONS ON THE PART OF HANOI WOULD NATURALLY AFFECT THIS FORECAST.

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(B) THE REQUESTED LEVEL OF AID FOR FY-75 IS THE HIGH POINT -- I.E. THE AID REQUEST WOULD BE ON A DECLINING CURVE AFTER THE UPCOMING FISCAL YEAR.

(C) VERY CLEARLY THE VALIDITY OF ANY AID PROJECTIONS WILL DEPEND ON OUR RECEIVING SUBSTANTIALLY THE AMOUNTS REQUESTED FOR FY-75 AND FOR THE SUBSEQUENT YEARS COVERED IN THE PROJECTION. IF THIS DOES NOT HAPPEN, THE PROJECTIONS

WOULD LIKELY HAVE TO BE REVISED.

(D) ALL PROJECTIONS WILL BE IN CONSTANT DOLLARS. ANY SIGNIFICANT CHANGES IN DOLLAR PURCHASING POWER WILL HAVE TO BE REFLECTED IN FUTURE AID REQUESTS AT THE TIME OF SUBMISSION.

(E) ALL MILITARY AID WILL CONTINUE TO BE ON A GRANT BASIS. ECONOMIC AID WILL CONTINUE TO BE ON A MIXED GRANT

AND LOAN BASIS.

5. THE PROJECTIONS:

(A) ECONOMIC AID.

A DETAILED FIVE-YEAR PROJECTION WILL BE PROVIDED FOR THE FY-75 - 79 PERIOD. THIS WILL INCLUDE FORECASTS OF IMPORT REQUIREMENTS, EXPORTS, INVISIBLES FLOWS, PROJECTED AID FROM NON-U.S. DONOR SOURCES AND PROJECTED U.S. ECONOMIC ASSISTANCE LEVELS. WE WILL NOTE THE NEED TO GAIN CONGRESSIONAL APPROVAL OF IDA REPLENISHMENT WHICH WILL ENABLE THE BANK TO PROCEED WITH ASSISTANCE TO THE GVN. WE WILL ALSO SEEK TO PROJECT A GROWING LEVEL OF PRIVATE FOREIGN INVESTMENT ESPECIALLY AFTER FY-76, AS SUBSTITUTIVE OF GOVERNMENTAL AID, AND NOTE THE RELATED NEED FOR CONGRESSIONAL ACTION TO REMOVE CURRENT INHIBITIONS ON AN OPIC INSURANCE PROGRAM IN SOUTH VIET-NAM.

U.S. ECONOMIC ASSISTANCE WILL INCLUDE INDOCHINA POST-WAR RECONSTRUCTION (IPR) FUNDS (BROKEN DOWN BY MAJOR CATEGORY), PL-480, AND DOD PIASTER PURCHASES FOR LOCAL EXPENDITURES. IPR FUNDS WILL SHOW A DECLINE FROM 750 MIL-  
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LION DOLLARS IN FY 75 TO PERHAPS 200 MILLION DOLLARS IN FY-79 AND 100 MILLION DOLLARS OR LESS AFTER THAT DATE. INPUTS IN FYS 76 AND 77 WOULD REMAIN RELATIVELY HEAVY. (NOTE THAT THE ABOVE PROJECTED LEVELS ARE PRELIMINARY ESTIMATES AND SUBJECT TO FURTHER, MORE INTENSIVE STUDY.)

(B) MILITARY AID.

THE MILITARY AID PROJECTION WILL ALSO SHOW A DOWNWARD TREND BUT THE CURVE WILL BE FLATTER AND MORE ELONGATED THAN THAT DEPICTING THE ECONOMIC AID PHASE-DOWN. DOD'S PREFERENCE IS TO PRESENT A SIX-YEAR PROJECTION, STARTING WITH THE REQUEST FOR 1.45 BILLION NOA IN FY-75, SHOWING REDUCTIONS IN EACH OF FYS 76 AND 77 AND A MORE SUBSTANTIAL RATE OF DECREASE THEREAFTER. FUNDING WOULD

BE BROKEN DOWN BY MAJOR CATEGORY -- E.G. AMMUNITION, POL, SPARES, ATTRITED LINE ITEMS, SUPPLY OPERATIONS, AND CONTRACT COSTS. DOD EMPHASIZES THAT PROJECTED REDUCTIONS IN MILITARY ASSISTANCE ASSUME A REDUCTION IN THE CURRENT LEVEL OF CONFLICT (APPROX. 50,000 RVN AND NVA KIA PER YEAR) AND A REDUCED RVN FORCE STRUCTURE.

6. SINCE, AS NOTED PARA 2 ABOVE,  
WE WISH TO BE PREPARED TO PRESENT AN OUTLINE OF OUR

PHASE-DOWN CONCEPT IN CONGRESSIONAL HEARINGS BEGINNING  
MAY 14, WE WOULD APPRECIATE YOUR COMMENTS SOONEST. RUSH

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